

Phoenix

Industrial Market Report 3rd Quarter 2018

Quick Stats

37.4 K

Net employment gain from August 2017 to August 2018.

891.3 K

Square feet of positive industrial space absorption.

7.0%

Vacancy increased by 10 basis points from second quarter 2018.

7.4 M

Square feet of industrial space under construction.

\$6.87 PSF

Triple net asking rents decreased by 0.6%.

Manufacturing and Data Centers Drive Growth.

Advanced manufacturing and data center sectors are driving the growth of Phoenix industrial tenants. The metro area remains an important logistical and transportation HUB for goods heading east from Los Angeles. Manufacturing employment continues to grow, increasing 5.3% in the past 12 months. Phoenix's lower business costs, attractive location and educated workforce ensures that industrial users of all kinds will continue to relocate to the region.

Rental Rates

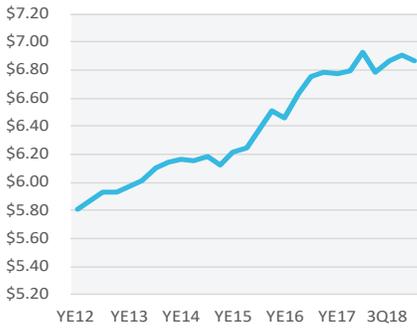
The Phoenix market's average asking rate ended the quarter at \$6.87 per square foot (psf), down 0.6% year-over-year. Rental rates have exhibited an upward trend since 2012 and may have reached a relative high point. Pinal County, Tempe East, Southwest South of Buckeye Road and Goodyear Submarkets have experienced the largest increases since second quarter, as high-end manufacturing and data center users are willing to pay higher prices. Low vacancy in the Southwest South of Buckeye Submarket

has allowed landlords to successfully raise asking rents 49.8% in the past two years.

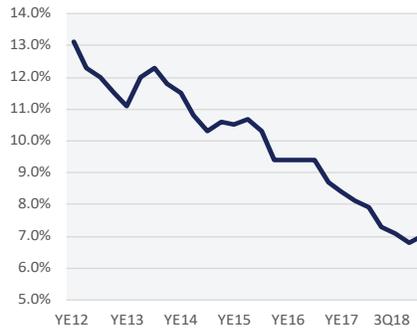
Vacancy

Vacancy increased 10 bps from second quarter 2018 to 7.1% in third quarter, although it is still near the historic low of 6.8% recorded in 2006. The greatest improvements in industrial vacancy were in Central Phoenix with 150 bps, South Airport South of Roeser with 150 bps and North Black Canyon with 160 bps. Worsening vacancy was seen in nine of the 31 submarkets, that were mostly more suburban in nature. The largest were the Goodyear Airport Submarket, increasing 730 bps, and Chandler Airport Submarket, increasing 130 bps. The amount of available sublease space fell 28.2% in the third quarter, as demand from companies relocating to Phoenix increased. Large amounts of sublease space is still available in the South Airport North of Roeser Submarket.

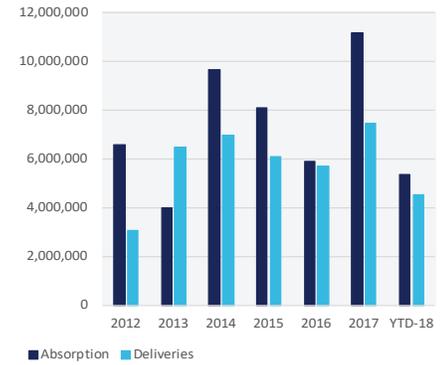
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	SF	Type
Albertsons	400 S. 99th Avenue	Tolleson	910,250	Direct
Cascade Windows	2225 S. 75th Avenue	Tolleson	155,794	Direct
Educational Furnishings of Arizona	6913 W. Buckeye Road	Tolleson	86,650	Direct
Dealer Tire, LLC	901 S. 86th Avenue	Tolleson	81,477	Direct
Gorbel Inc.	1300 S. Litchfield Road	Goodyear	50,740	Direct

Top Sales

Buyer	Building	Submarket	SF	Sale Price
Digital Realty Trust	Digital Realty Data Center	Chandler	314,600	\$236,728,000
Digital Phoenix Van Buren, LLC	Downtown Phoenix Technology Exchange	Downtown Phoenix	287,514	\$175,000,000
Platypus Development LLC	Mesa Gateway	Chandler North/Gilbert	1,328,075	\$107,600,000
Iron Mountain Intellectual Property Management	615 N. 48th Street	Tempe Northwest	530,856	\$106,875,000
Industrial Income Trust, Inc.	Riverside Ind. Center - II & III	Southwest South of Buckeye Road	1,207,021	\$105,100,000

Under Construction

Property	Submarket	Completion	SF	% Preleased/Owned
TEN - Warehouse 1	Tolleson	4Q18	1,100,000	0.0%
Orbital ATK Manufacturing	Chandler	1Q19	617,000	100.0%
West 80 Industrial	Tolleson	2Q19	379,828	0.0%
8175 W. Buckeye Road	Tolleson	4Q18	359,040	0.0%
Prologis Loop 202 @ I-10	Southwest N. of Buckeye Road	2Q19	330,842	0.0%

Trends to Watch

Manufacturing employment has increased, while the overall unemployment rate remains the same.



4.5%

The 2018 August unemployment rate has remained flat from January 2018.



10.3% to 7.0%

While vacancy increased a modest 10 bps this quarter, it has trended downward since third quarter 2015.

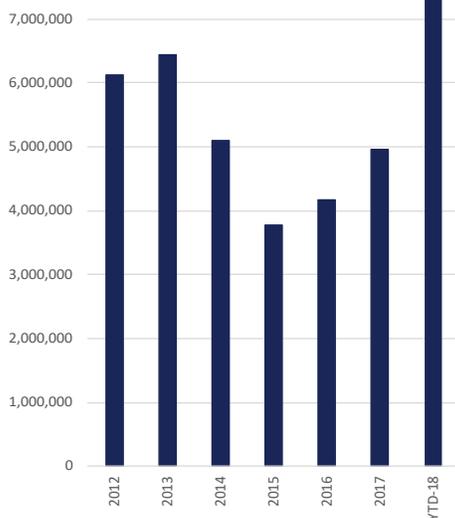


5.3%

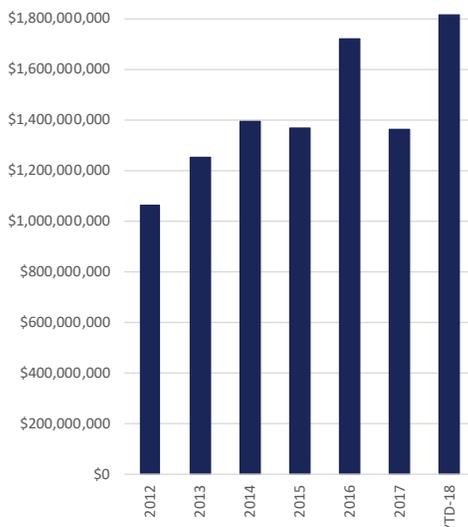
Manufacturing employment has increased year-over-year.

Phoenix Industrial investment sales has reached \$1.8 B since first quarter 2018, which has already exceeded 2017 volume.

Under Construction



Investment Sales



Leasing

Absorption remains strong in the third quarter, achieving 891,253 sf, bringing the year-to-date total to 5,329,652 sf. The Glendale Submarket outpaced the rest of the region in the third quarter, with 789,324 sf, followed by the Chandler/North Gilbert Submarket, with 595,752 sf. Warehouse usage continues to expand.



400 S. 99th Avenue

The largest lease of the quarter was at 400 S. 99th Avenue where Albertsons leased 910,250 sf for their logistics requirements. Cascade Windows is taking 155,794 sf in the Tolleson Submarket at the Durango Commerce Center. Educational Furnishings of Arizona leased 86,650 sf for its operations at Buckeye Logistics Center.

Construction

New space under construction continues to rise for the Phoenix Industrial Market.

At the end of third quarter, the industrial market had nearly 7.4 msf under construction.

The Tolleson Submarket accounts for 27.0% of the square footage under construction, including the TEN - Warehouse 1 projected to deliver 1,100,000 sf by the end of 2018 with 0.0% preleased. TEN - Warehouse 1 is the largest project currently under construction. Strong preleasing has captured 31.2% of square footage in development.

Investment Sales

2018 has already exceeded 2017 volume with industrial sales totaling \$796 million in the third quarter, bringing year-to-date volume to \$1.8 billion.

Transactions this quarter demonstrate the high demand for data storage facilities.



Digital Realty Data Center

In the largest sale of the quarter, the Digital Realty Data Center, located in the Chandler Submarket, was purchased by Digital Realty Trust for \$237 million (\$753 psf). The second largest sale was also a data center at Downtown Phoenix Technology Exchange, sold for \$175 million (\$609 psf). 2018 industrial sales have already reached a historically high volume.

Market By The Numbers

Submarket	Total RBA	Vacancy Space Direct	Available Space Sublease	Vacancy Rate Flex	Vacancy Rate Industrial	Net Absorption (\$F)	YTD Net Absorption	Avg. Ask Total (NNN)	Avg. Ask Flex (NNN)	Avg. Ask Industrial (NNN)
Central Phoenix	4,504,707	232,088	0	3.0%	5.8%	-11,033	19,165	\$10.89	\$15.62	\$9.49
Chandler Airport	3,650,844	656,762	1,304	44.2%	13.0%	58,870	209,454	\$10.44	\$16.99	\$8.04
Chandler	21,349,496	148,529	0	11.7%	3.9%	20,881	81,050	\$9.51	\$14.98	\$7.67
Chandler North/Gilbert	20,052,996	782,781	96,689	6.9%	4.1%	43,378	595,752	\$7.76	\$11.17	\$7.28
Deer Valley/Pinnacle Park	17,263,954	48,889	1,500	1.6%	9.9%	119,636	390,391	\$8.71	\$11.52	\$8.57
Falcon Field/Apache Junction	5,060,733	387,041	39,166	16.7%	7.7%	3,207	55,731	\$8.86	\$9.42	\$8.81
Glendale	10,213,387	1,244,713	0	11.3%	12.2%	55,840	789,324	\$5.27	\$7.20	\$5.26
Goodyear	12,319,838	2,324,228	0	15.6%	18.9%	-166,696	26,410	\$4.67	\$4.80	\$4.67
Grand Avenue	13,356,661	464,350	25,000	11.5%	3.6%	71,039	94,498	\$4.88	\$16.50	\$4.69
Mesa	7,749,187	453,119	0	5.5%	5.9%	22,930	47,864	\$7.27	-	\$7.27
North Glendale/Sun City	3,614,134	92,456	2,442	1.9%	2.7%	25,094	107,428	\$7.67	\$4.52	\$8.51
North Airport	13,609,882	832,484	0	13.4%	5.1%	42,421	241,759	\$8.91	\$12.25	\$7.06
North Black Canyon	4,507,689	4,507,689	0	21.2%	3.7%	-26,327	33,976	\$8.60	\$9.52	\$7.27
North Outlying	136,963	0	0	-	0.0%	0	0	-	-	-
Northwest Outlying	101,565	0	0	-	0.0%	0	0	-	-	-
Pinal County	9,495,944	308,783	33,000	4.4%	3.6%	-42,873	65,036	\$8.44	\$10.00	\$8.39
South Airport North of Roeser	15,754,317	1,785,308	15,663	22.6%	9.0%	84,957	142,480	\$8.97	\$13.29	\$6.93
South Airport South of Roeser	4,560,703	134,075	81,351	13.8%	4.4%	66,657	63,195	\$6.62	\$10.20	\$6.27
Scottsdale North of Salt River	15,631,924	733,472	4,620	7.1%	4.6%	-115,239	167,740	\$7.44	\$4.94	\$7.45
Scottsdale South of Salt River	2,533,861	410,592	0	0.0%	16.5%	-5,091	82	\$5.49	-	\$5.49
Scottsdale Airpark	6,846,556	534,699	9,481	9.9%	6.8%	71,476	109,470	\$12.75	\$13.91	\$11.81
Scottsdale/Salt River	5,459,615	172,229	0	5.6%	2.0%	15,532	127,631	\$12.13	\$12.57	\$11.49
Southwest Outlying	99,833	33,000	0	-	33.1%	0	0	\$2.52	-	\$2.52
Southwest North of Buckeye Rd	33,465,304	1,982,933	22,595	0.0%	6.0%	66,073	328,652	\$4.99	-	\$4.99
Southwest South of Buckeye Rd	17,904,710	1,034,377	1,900	0.0%	5.6%	66,420	570,272	\$6.77	-	\$6.77
Tempe East	6,700,388	291,660	6,120	13.6%	2.2%	13,722	96,738	\$8.16	\$10.48	\$7.96
Tempe Northwest	10,963,376	709,074	11,817	10.6%	5.5%	66,211	79,803	\$8.47	\$11.86	\$7.67
Tempe Southwest	21,607,871	1,628,627	98,971	11.8%	7.2%	22,011	388,289	\$7.72	\$12.67	\$6.53
Tolleson	36,054,207	2,751,315	51,156	3.9%	8.0%	249,784	566,663	\$4.62	\$11.24	\$4.60
West Phoenix North/Thomas Rd	8,290,745	244,637	4,500	4.1%	2.9%	1,113	-97,638	\$4.73	-	\$4.73
West Phoenix South/Thomas Rd	6,996,505	177,672	0	9.5%	2.4%	4,105	-34,802	\$5.35	-	\$5.35
Total	339,793,595	25,045,143	507,275	10.9%	6.6%	891,253	5,329,652	\$6.87	\$12.95	\$6.17


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